

METROPOLITAN WATER DISTRICT OF PLEASANT GROVE

FINANCIAL STATEMENTS

JUNE 30, 2006

METROPOLITAN WATER DISTRICT OF PLEASANT GROVE
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GILBERT & STEWART

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INDEPENDENT AUDITOR'S REPORT

Chairman and Board Council
Metropolitan Water District of Pleasant Grove
Pleasant Grove, UT

December 19, 2006

We have audited the accompanying financial statements of the business-type activities, which collectively comprise the financial statements of Metropolitan Water District of Pleasant Grove as of June 30, 2006, and for the year then ended as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Metropolitan Water District of Pleasant Grove as of June 30, 2006 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2006, on our consideration of Metropolitan Water District of Pleasant Grove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


GILBERT & STEWART
Certified Public Accountants

Management's Discussion and Analysis

Within this section of the Metropolitan Water District of Pleasant Grove (District) annual financial statement the District's management provides a narrative discussion and analysis of the District's financial activities for the fiscal year ending June 30, 2006. It also encourages the reader to consider the statements herein in addition to the comments made here.

Overview of the Financial Statements

The financial statements herein are three in number.

The first is a Statement of Net Assets which presents information on all of the District's assets and liabilities, with the difference reported as "Total Net Assets." The total net assets when viewed on time continuum will track the District's financial position (i.e. increasing or declining in value).

The second statement is Revenues, expenses and Changes in Net Assets. This statement presents information regarding the change in the District's net assets during the year. The District uses the accrual basis of accounting in which revenues and expenditures are recognized when earned and expended. Thus, revenues and expenditures are reported in these statements for items that will affect future cash flows.

The third statement is Cash Flows. This statement presents the activities of the District on a cash-received and cash-paid basis. It shows how cash was spent and reconciles the change in the District's cash accounts during the year. The information presented therein requires no explanation and thus is omitted from the analysis.

Financial Analysis

The District has not exercised the taxing authority granted by the Utah Code. It is currently operating with revenues gained from water sales and interest from investments. Therefore the District conducts its financial activities from a single enterprise fund.

Revenues

The District has two basic sources of operating revenue (water sales to Pleasant Grove City & Cash payments from developers in lieu of water shares) and one source of non-operating (interest from the investment of net assets).

The contract with the District and Pleasant Grove City allows for charges for water up to the amount of the debt service owed by the District. Thus, guaranteeing coverage for debt service by the District.

The District invests its net assets in the Public Treasurers Investment Fund (PTIF).

The following table summarizes information presented in the financial statements.

Statement of Net Assets

ASSETS

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Noncurrent Assets			
Temp Restricted Cash & A/R	\$607,659	\$1,068,585	(\$460,926)
Capital Assets - Water Stock	3,477,118	1,704,550	1,772,568
Deferred Bond Financing Cost - Net	<u>25,400</u>	<u>28,388</u>	<u>(2,988)</u>
Total Assets	<u>\$4,110,177</u>	<u>\$2,801,523</u>	<u>\$1,308,654</u>

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Liabilities			
Current Liabilities			
Accounts Payable and Accrued Liabilities	\$12,666	\$13,615	(\$949)
Contract Payable - Current Portion	0	0	0
Water Revenue Bonds Payable - Current Portion	<u>165,000</u>	<u>160,000</u>	<u>5,000</u>
Total Current Liabilities	<u>177,666</u>	<u>173,615</u>	<u>4,051</u>
Noncurrent Liabilities			
Water Revenue Bonds Payable	<u>1,590,000</u>	<u>1,755,000</u>	<u>(165,000)</u>
Total Noncurrent Liabilities	<u>1,590,000</u>	<u>\$1,755,000</u>	<u>(165,000)</u>
Total Liabilities	<u>1,767,666</u>	<u>1,928,615</u>	<u>(160,949)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,722,118	(210,450)	1,932,568
Unrestricted	<u>620,394</u>	<u>1,083,358</u>	<u>(462,964)</u>
Total Net Assets	<u>\$2,342,512</u>	<u>\$872,908</u>	<u>\$1,469,604</u>

Statement of Revenues Expenses and Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Operating Revenue			
Water Sales and Rental	\$0	\$286,663	(\$286,663)
Operating Expenses			
General	<u>2,545</u>	<u>2,539</u>	<u>6</u>
Operating Income	<u>(2,545)</u>	<u>284,124</u>	<u>(286,669)</u>
Non-Operating Revenue (Expenses)			
Interest Income	36,077	23,225	12,852
Contributions for Water Shares	1,171,446	197,978	973,468
Amortization of Bond Issuance Costs	(2,988)	(2,988)	0
Interest Expense and Agent Fees	<u>(78,301)</u>	<u>(83,587)</u>	<u>5,286</u>
Total Non-Operating Revenue (Expenses)	<u>1,126,234</u>	<u>134,628</u>	<u>991,606</u>
Net Income	1,123,689	418,752	704,937
Net Assets - Beginning of Year	872,908	454,156	794,666
Correction of a Prior Period	<u>345,914</u>		
Net Assets - Ending of Year	<u>\$2,342,511</u>	<u>\$872,908</u>	<u>\$1,469,603</u>

Capital Assets

During the year, the District purchased 113 water shares from Pleasant Grove City for \$655,400 and several other shares from individuals for \$7,394. An additional \$345,914 in water shares were transferred into the District from the City as a correction of the prior year. Developers also contributed water shares of \$763,860.

Long Term Liabilities

The District has only one major long-term liability. The District bonded for \$2,270,000 in May 2002 for the purchase of water rights. The bond will be paid off in 2015. The annual payments range from \$235,00 to \$239,000.

Currently the District has no other long-term liabilities and foresees no future revenue requirements for which the District would need to issue more bonds or impose its taxing authority.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Pleasant Grove MWD, 70 South 100 East, Pleasant Grove, Utah 84062.

BASIC FINANCIAL STATEMENTS

METROPOLITAN WATER DISTRICT OF PLEASANT GROVE

STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS

Current Assets

Receivable - Pleasant Grove City

\$ 156,047

Noncurrent Assets

Temporarily Restricted Cash

451,612

Capital Assets - Water Stock

3,477,118

Deferred Bond Financing Cost - Net

25,400

Total Noncurrent Assets

3,954,130

Total Assets

\$ 4,110,177

LIABILITIES

Current Liabilities

Accounts Payable and Accrued Liabilities

\$ 12,666

Water Revenue Bonds Payable - Current Portion

165,000

Total Current Liabilities

177,666

Noncurrent Liabilities

Water Revenue Bonds Payable

1,590,000

Total Liabilities

1,767,666

NET ASSETS

Invested in Capital Assets, Net of Related Debt

1,722,118

Unrestricted

620,394

Total Net Assets

\$ 2,342,512

See accompanying notes.

METROPOLITAN WATER DISTRICT OF PLEASANT GROVE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2006

Operating Revenue		
Water Sales and Rental		\$0
Operating Expenses		
General		2,545
Operating Income		<u>(2,545)</u>
Non-Operating Revenue (Expenses)		
Interest Income	\$ 36,077	
Contributions for Water Shares	1,171,446	
Amortization of Bond Issuance Costs	(2,988)	
Interest Expense and Agent Fees	<u>(78,301)</u>	
Total Non-Operating Revenue (Expenses)		<u>1,126,234</u>
Net Income		<u>1,123,689</u>
Net Assets - Beginning of Year		872,908
Correction of a Prior Period		345,914
Net Assets - Beginning as Adjusted		<u>1,218,822</u>
Net Assets - End of Year		<u><u>\$2,342,511</u></u>

See accompanying notes.

METROPOLITAN WATER DISTRICT OF PLEASANT GROVE

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

Cash Flows from Operating Activities:

Water Sales and Rental	\$ -	
Payments to Vendors	(2,545)	
Total		\$ (2,545)

Cash Flows from Non-Capital and Related Financing Activities

Receivable from Pleasant Grove City	(156,047)
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Cash Flows from Capital and Related Financing Activities

Purchase of Water Shares	(662,794)	
Decrease in Debt	(160,000)	
Interest and Fees	(79,250)	
Cash Contributions for Water Shares	407,586	
Total		(494,458)

Cash Flows from Investing Activities

Interest Income	36,077
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Net Decrease in Cash and Cash Equivalents (616,973)

Cash and Cash Equivalents - Beginning 1,068,585

Cash and Cash Equivalents - Ending \$451,612

Reconciliation of Operating Income to Cash Flows from Operating Activities:

Cash Flows from Operating Activities

Net Operating Income	\$ (2,545)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided (Used)	0

Net Cash Used in Operating Activities \$ (2,545)

Supplementary Information:

Cash paid for interest was \$77,550.

Noncash contributions of water rights from developers \$ 763,860

See accompanying notes.

METROPOLITAN WATER DISTRICT OF PLEASANT GROVE
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Metropolitan Water District of Pleasant Grove was formed as a special district in 1937 (but was inactive until 2001) to locate, develop and protect water resources. All of the services provided by the District, the activities and funds that are financially accountable to the District as defined by GASB Statement 14, are included in the financial statements.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles as applied to government units. The more significant accounting policies are as follows:

Fund Accounting

The District uses only one fund to account for its operations. The proprietary fund type (enterprise fund) is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

Metropolitan Water District of Pleasant Grove maintains its books and financial statements in conformity with generally accepted accounting principles as applicable to governmental units. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District is a proprietary fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recognized when incurred.

The District distinguishes operating revenues and expenses from non-operating items by whether or not transactions are in connection with the District's purpose of locating, developing, and protecting water resources.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

METROPOLITAN WATER DISTRICT OF PLEASANT GROVE
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

NOTE 1 – SUMMARY (CONTINUED)

Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits, and short-term investments with original maturities of three months or less.

NOTE 2 - CASH AND CASH EQUIVALENTS

A. Deposits

Deposits – Custodial Credit Risk. Custodial risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The District considers the actions of the State Money Management Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. District funds are deposited in qualified depositories as defined by the Act. The District does not have a deposit policy for custodial credit risk. As of June 30, 2006, the District's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2006</u>
Regular Checking Account	Insured	\$ -

B. Investments

The District's investments are managed through participation with Zion's Bank which invests the funds in the State Public Treasurers' Investment Fund. These accounts are bond funds which are for the purchase of water shares and for payments on the bond liabilities. As of June 30, 2006 the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurers' Investment Fund through Zions Bank	Less than one year	<u>\$451,612</u>

METROPOLITAN WATER DISTRICT OF PLEASANT GROVE
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments–Interest Rate Risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

Investments–Credit Risk. The District follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. District funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the District to invest in the Utah Public Treasurers Investment Fund (PTIF), certificates of Deposits, U.S. Treasury obligations, U.S. agency issues, high-grade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The District considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The District has no investment policy that would further limit its investment choices. The PTIF is currently not rated.

Investments–Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have an investment policy for custodial credit risk.

NOTE 3 - RETIREMENT PLAN

The District has no employees covered by a retirement plan.

NOTE 4 – CAPITAL ASSETS - WATER STOCK

The District owns shares in several water companies and underground springs in the amount of \$3,477,118. These water rights are collateral for the water revenue bond.

METROPOLITAN WATER DISTRICT OF PLEASANT GROVE
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

NOTE 4 – CAPITAL ASSETS - WATER STOCK (CONTINUED)

The changes in capital assets for the year are as follows:

	Balance 7/1/06	Additions	Deductions	Balance 6/30/06
Water Rights and Shares	<u>\$2,050,464</u>	<u>\$1,426,654</u>	<u>\$ -</u>	<u>\$3,477,118</u>

NOTE 5 - LONG-TERM DEBT

The following is a summary of changes in long-term debt:

	Balance 7/1/2005	Additions	Deletions	Balance 6/30/2006	Due Within One Year
Water Revenue Bonds	\$ 1,915,000	\$ -	\$ 160,000	\$ 1,755,000	\$ 165,000
Payable to Pleasant Grove City	-	-	-	-	-
Total	<u>\$ 1,915,000</u>	<u>\$ -</u>	<u>\$ 160,000</u>	<u>\$ 1,755,000</u>	<u>\$ 165,000</u>

The Water Revenue Bonds are payable yearly at interest rates of 3.0% to 4.5% until October 1, 2014. Total debt service for 5 years and to maturity is as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 165,000	\$ 71,862	\$ 236,862
2008	170,000	65,788	235,788
2009	180,000	59,000	239,000
2010	185,000	51,469	236,469
2011	195,000	43,394	238,394
2012-2015	<u>860,000</u>	<u>80,975</u>	<u>940,975</u>
Total	<u>\$1,755,000</u>	<u>\$372,488</u>	<u>\$2,127,488</u>

NOTE 6 - CONCENTRATION OF CREDIT RISK AND ECONOMIC DEPENDENCY

All of the District's revenues are derived from the City of Pleasant Grove.

METROPOLITAN WATER DISTRICT OF PLEASANT GROVE
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is covered under the various insurance policies of Pleasant Grove City, which are mainly through the Utah Local Government's Trust (a public entity risk pool.) The plans cover liability, theft, damages, and other losses. A minimal deductible applies in the event of any loss. No claims have been reported as of year end. No claims have been paid in the current or prior three years.

NOTE 8 - CORRECTION OF A PRIOR PERIOD

During the year end June 30, 2005, water rights in the amount of \$345,914 were incorrectly reported as being donated to Pleasant Grove City instead of Metropolitan Water District of Pleasant Grove.

SUPPLEMENTARY REPORTS

GILBERT & STEWART

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Metropolitan Water District of Pleasant Grove
Pleasant Grove, UT 84601

December 19, 2006

We have audited the financial statements of the business-type activities of Metropolitan Water District of Pleasant Grove as of and for the year ended June 30, 2006, which collectively comprise Metropolitan Water District of Pleasant Grove's basic financial statements and have issued our report thereon dated December 19, 2006. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

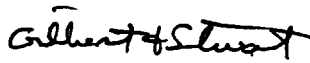
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metropolitan Water District of Pleasant Grove's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metropolitan Water District of Pleasant Grove's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE WITH APPLICABLE UTAH STATE LAWS AND REGULATIONS

Chairman and Executive Board
Metropolitan Water District of Pleasant Grove
Pleasant Grove, UT 84061

December 19, 2006

We have audited the accompanying financial statements of the business-type activities of Metropolitan Water District of Pleasant Grove for the year ended June 30, 2006, and have issued our report thereon dated December 19, 2006. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements

Budgetary Compliance
Special Districts
Other General Issues


The District did not receive any major or non-major State grants during the year ended June 30, 2006.

The management of the Metropolitan Water District of Pleasant Grove is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Metropolitan Water District of Pleasant Grove complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2006.

This report is intended solely for the information and use of management and Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

**METROPOLITAN WATER DISTRICT
OF PLEASANT GROVE**

MANAGEMENT LETTER

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December 19, 2006

Metropolitan Water District of Pleasant Grove
Pleasant Grove, UT

We have completed our audit of the general purpose financial statements of Metropolitan Water District of Pleasant Grove for the year ended June 30, 2006 and have issued our report thereon dated December 19, 2006. Professional Standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated September 20, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Metropolitan Water District of Pleasant Grove. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Metropolitan Water District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provision.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Metropolitan Water District of Pleasant Grove are described in Note 1 to the financial statements. No new

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accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process. We did propose and make certain reclassifying, and closing entries to properly reflect required recognition of revenues, expenses, and financial position in accordance with U.S. generally accepted accounting principles.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

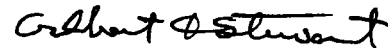
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Utah State Compliance Findings - Current Year - None

Utah State Compliance Findings - Prior Year - None

This information is intended solely for the use of the management of Metropolitan Water District of Pleasant Grove and should not be used for any other purpose.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gilbert & Stewart".

GILBERT & STEWART
Certified Public Accountants